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12/04/2001 - Updated 02:42 PM ET

States roll out red carpet for Defense dollars

By Edward Iwata, USA TODAY

SAN FRANCISCO — State and local government and business leaders are stepping up efforts to entice defense contractors and military dollars to their regions.

They're offering tax breaks, launching marketing campaigns and working closely with politicians in anticipation of a rise in defense spending under the Bush administration.

Why the effort? Big defense contracts can spark their ailing economies. Last year alone, states landed \$143 billion in military dollars. That created tens of thousands of jobs and brought revenue windfalls to thousands of military manufacturers and subcontractors.

After years of cutbacks that gutted the defense industries, the United States may be charging into a new era of military spending rivaling that of the Reagan years. Analysts expect the Pentagon's annual \$300 billion budget to grow substantially because of the war on terrorism and the retooling of the rapidly aging U.S. military machine, which still is largely dependent on ships and aircraft built for the Cold War.

"The defense industry is going to see better times, so states are lining up to get a piece of the action," says Stephen Fuller, a George Mason University (Va.) professor who studies the defense economy.

Military gold rush

California has quietly formed a "Gold Team" to lobby military contractors and federal officials on the virtues of doing business in the Golden State, which enjoyed a high-tech and Internet gold rush in the late 1990s.

California hopes to revive its weakened defense industry, which boasted



Moneymaker: Military F-16 pilots train in flight simulators made by Silicon Graphics in California.

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2,000 companies and 400,000 workers at its peak in the 1980s. Half of those businesses and employees were felled as military spending waned in the 1990s.

"We're the ideal place for the defense industry, given our high-tech industry and the military's emphasis on satellite and communications systems, security, intelligence — everything," says Maj. Gen. Bill Jefferds, military adviser to Calif. Gov. Gray Davis.

California officials failed to persuade Lockheed Martin, the nation's No. 1 defense contractor, to build a fleet of stealth jetfighters in the state. Last month, a team of contractors led by Lockheed Martin won a record \$200 billion contract to make 3,000 Joint Strike Fighters for the USA and Great Britain.

But state and labor leaders did persuade Lockheed Martin to bring 25% of the work to California subcontractors. Among the sweet draws: tax breaks, worker-training programs and an Air Force-owned manufacturing plant in Palmdale.

The state's cheerleading pleases Silicon Graphics, a Silicon Valley firm well-known for its computer graphics in *Jurassic Park*. SGI also makes flight-simulation technology and other products for the armed forces and Boeing, Lockheed Martin and Northrop Grumman. One-fourth of SGI's 2001 revenue of \$1.9 billion came from defense dollars.

SGI executives and other Silicon Valley leaders are backing legislative efforts by Rep. Mike Honda, a Democrat from San Jose, to bring defense-related contracts to California's high-tech firms.

"That kind of aggressive policymaking is attractive to us," says John Burwell, SGI's senior director of government industry. "The money's there, and (government) needs to work with companies to get it flowing."

The 'Digital Dominion'

Virginia, touted as the "Digital Dominion" by Gov. Jim Gilmore, has persuaded hundreds of defense contractors in recent years to move to the state or start their businesses there.

More than 4,000 high-tech firms, mostly defense contractors, have settled in Fairfax County alone, cranking out \$34 billion in sales last year, according to Gerald Gordon, head of the county's Economic Development Authority.

Sure, companies like the leafy suburban neighborhoods, world-class office and retail centers, and low sales and corporate income taxes in Virginia. And the state is home to Internet and telecom giants, a well-educated workforce and 12 federal research and development facilities.

But the region's sexiest selling point is unrivaled access to federal power brokers and decision-makers. "We're right across the river from D.C., and 200 members of Congress have homes in Virginia," says Donald Upson, Virginia's secretary of technology.

Doing business in the region was a no-brainer for NetSec, an Internet security firm founded 3 years ago by former National Security Agency officials. The company guards against hackers and cyberterrorists with anti-virus protection and firewall monitoring, and it works confidentially with *Fortune* 500 firms and military and intelligence agencies.

"Proximity to Washington is a huge plus," says Bob Wrede, NetSec's senior vice president of government services.

To keep pounding home its pro-business message, Virginia is in the midst of a \$2 million marketing campaign using the slogan "Virginia is for Business."

The Lone Star State

Texas officials appeal to defense contractors and other businesses with juicy tax breaks, such as no sales tax on manufacturing equipment bought in Texas. Most recently, state lawmakers passed a bill that caps property taxes for firms at \$20 million to \$100 million. More big plusses: strong shipping facilities, sunny year-round weather, desirable schools and spacious neighborhoods.

Lockheed Martin declined to comment, but Texas leaders say their business climate helped sway the aerospace giant to assemble the military's Joint Strike Fighter fleet at Lockheed's manufacturing plant in Fort Worth.

"When you add up everything, Texas emerged as the logical choice (for Lockheed Martin)," says Mike Rosa, vice president of economic development at Fort Worth's Chamber of Commerce.

The monster contract will create 24,000 jobs a year in Texas. It also will inject into the state economy an additional \$137 billion in corporate revenue, government fiscal revenue and retail sales over the 40-year life of the contract, says The Perryman Group consulting firm in Waco.

Texas whooped it up after winning Lockheed Martin's business, but the state isn't resting easy. It plans to soon launch an advertising campaign to lure companies. Says Heather Richardson of the Texas Department of Economic Development: "We want everyone to know we're a very business-friendly state."